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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d) of The Securities and Exchange Act of 1934

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 5, 1992

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-17980

RALLY'S, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	62-1210077
(State or other jurisdiction of)	(IRS Employer ID Number)

10002 Shelbyville Road, Suite 150, Louisville, KY 40223

Registrant's telephone number, including area code: 502 / 245-8900

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class - Common stock, Par value $.10 per share

Outstanding at May 15, 1992 - 7,549,532, of which 120,000 shares are held in escrow pending performance of certain obligations by stockholders.

BEST COPY AVAILABLE

RALLY'S, INC. AND SUBSIDIARIES

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RALLY'S, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF APRIL 5, 1992 AND DECEMBER 29, 1991

	April 5, 1992 (Unaudited)	December 29, 1991
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$ 3,363,107	$ 3,757,746
Royalties receivable, net of a reserve for doubtful accounts of $387,433 and $423,689 at April 5, 1992 and December 29, 1991, respectively	744,115	1,340,050
Accounts receivable, net of a reserve for doubtful accounts of $8,263 at April 5, 1992 and December 29, 1991, respectively	294,913	551,578
Inventory, at lower of cost or market	372,791	413,278
Accounts and notes receivable from related parties (Note 3)	1,003,700	807,921
Current portion of other notes receivable	162,000	162,870
Prepaid expenses and other current assets	923,463	798,930
Total current assets	6,864,889	7,632,373
Net property and equipment, at historical cost	45,416,421	43,778,177
Restricted certificate of deposit	264,000	260,848
Notes receivable from related parties, less current portion	493,940	543,212
Other notes receivable	587,111	805,741
Organization and development costs, less accumulated amortization of $196,963 and $185,519 at April 5, 1992 and December 29, 1991, respectively	82,580	91,039
Other assets, less accumulated amortization	4,518,260	4,294,652
Total assets	$ 58,207,200	$ 57,206,042
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,757,148	$ 2,564,520
Accrued liabilities	3,135,195	3,496,843
Current maturities of long-term debt and obligations under capital leases	1,188,147	1,188,147
Accrued income taxes	1,228,864	1,432,396
Unearned franchise fees	55,000	10,000
Total current liabilities	8,364,354	8,691,906
Deferred income taxes	850,922	850,165
Long-term debt, less current maturities	8,028,386	8,295,280
Obligations under capital leases, less current maturities	3,660,658	3,685,816
Unearned area development fees	880,000	1,055,000
Total liabilities	19,784,320	20,578,167
Commitments and contingencies (Notes 4 and 5)		
Stockholders' equity:		
Common stock, $.10 par value, 25,000,000 shares authorized, 7,695,120 and 7,665,180 shares issued at April 5, 1992 and December 29, 1991, respectively	769,512	766,518
Additional paid-in capital	26,793,631	26,538,180
Less: Treasury shares, 159,257 shares at April 5, 1992 and December 29, 1991	(2,009,667)	(2,009,667)
Contingent shares, 120,000 shares at April 5, 1992 and December 29, 1991 (Note 2)	(870,000)	(870,000)
Retained earnings	13,739,404	12,202,844
Total stockholders' equity	38,422,880	36,627,875
Total liabilities and stockholders' equity	$ 58,207,200	$ 57,206,042

The accompanying notes are an integral part of these consolidated balance sheets.

RALLY'S, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
REVENUES:		
Restaurant sales	$23,720,526	$17,625,324
Royalty fees	986,440	1,155,196
Area development fees	220,000	750,000
Franchise fees	62,500	140,000
Total revenues	24,989,466	19,670,520
COSTS AND EXPENSES:		
Restaurant costs of sales	8,502,382	7,016,056
Restaurant operating expenses exclusive of depreciation and amortization and other operating expenses shown separately below (Note 1)	9,111,446	6,828,291
General and administrative expenses (Note 1)	2,594,247	2,266,432
Advertising and promotion expenses	1,125,529	923,566
Depreciation and amortization	1,069,436	932,966
Total costs and expenses	22,403,040	17,967,313
Income from operations	2,586,426	1,703,207
OTHER INCOME (EXPENSE):		
Interest income	69,280	17,766
Interest expense	(258,764)	(75,385)
Other	29,738	88,938
Total other income (expense)	(159,746)	31,319
Income before income taxes	2,426,680	1,734,526
PROVISION FOR INCOME TAXES	890,120	624,427
Net income	$ 1,536,560	$ 1,110,099
Earnings per share	$ .20	$ .15
Weighted average shares outstanding	7,870,176	7,355,918

The accompanying notes are an integral part of these consolidated financial statements.

RALLY'S, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (NOTE 2)
(Unaudited)

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES:		
Net income	$ 1,536,560	$ 1,110,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,069,436	932,986
Provision for losses on receivables	85,880	57,812
Stock grant	14,438	15,411
(Gain) loss on sale/retirement of assets	---	(11,844)
Minority interest	---	(9,102)
Changes in assets and liabilities net of effects from business combinations:		
(Increase) decrease in assets:		
Receivables	766,720	(134,464)
Inventory	40,487	(12,773)
Prepaid expenses and other current assets	(227,893)	(285,799)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(169,020)	(157,335)
Accrued income taxes	(203,532)	305,332
Unearned franchise and area development fees	(139,000)	(760,000)
Net cash provided from operating activities	2,783,076	1,050,243
CASH FLOWS (USED IN) INVESTING ACTIVITIES:		
Accounts and notes receivable from related parties	(307,807)	(49,369)
Capital expenditures	(2,488,458)	(2,759,519)
Increase in other assets	(349,268)	(232,323)
Payment for restricted certificates of deposit	(3,152)	(250,000)
Acquisition of businesses, net of cash acquired	---	(152,351)
Net cash used in investing activities	(3,128,685)	(3,443,562)
CASH FLOWS PROVIDED FROM (USED IN) FINANCING ACTIVITIES:		
Payment of organization and development costs	(985)	(34,945)
Net borrowings under line of credit	---	950,000
Principal payments of debt	(286,894)	(92,739)
Proceeds from the issuance of common stock, net of costs of issuance	244,007	1,615
Principal payments on capital lease obligations	(25,158)	(31,274)
Dividends paid to former shareholders of Maxies prior to its acquisition	---	(3,647)
Net cash provided from (used in) financing activities	(69,030)	799,010
Net (decrease) in cash	(394,639)	(1,594,309)
CASH AND CASH EQUIVALENTS, beginning of period	3,757,746	1,659,125
CASH AND CASH EQUIVALENTS, end of period	$ 3,363,107	$ 64,816

The accompanying notes are an integral part of these consolidated financial statements.

RALLY'S, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. **Financial Statement Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, it is suggested that the accompanying financial statements be read in conjunction with the financial statements and notes thereto included elsewhere in this prospectus. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the audited consolidated financial statements for the fiscal year ended December 29, 1991.

The consolidated financial statements include Rally's, Inc. (Rally's) and its wholly owned subsidiaries, Rally's of Ohio, Inc., Self Service Drive-Thru, Inc., Rally's Finance, Inc. and Rally's Management, Inc. On June 28, 1991, Rally's acquired Maxie's of America, Inc. (Maxie's), a chain of nineteen (eight company owned and eleven franchised) double drive-through hamburger restaurants operating in three states, in a transaction accounted for as a pooling of interests. Previously reported amounts for the 13 weeks ended March 31, 1991, have been restated for the acquisition of Maxie's. A reconciliation of such amounts has not been presented as the impact was not significant. All significant intercompany accounts and transactions have been eliminated.

Supervision and training expenses, in the amount of $701,823, previously reported as restaurant operating expenses for the 13 weeks ended March 31, 1991, have been reclassified to general and administrative expenses in the accompanying consolidated statements of operations to conform with the Company's current reporting practices. Such reclassificationshad no effect on previously reported net income.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments considered necessary to present fairly the Company's financial position as of April 5, 1992, and the results of its operations and cash flows for the 14 weeks ended April 5, 1992, and the 13 weeks ended March 31, 1991. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.

2. **Supplemental Disclosures of Cash Flow Information**

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
Interest paid (net of amount capitalized)	$ 99,235	$ 87,385
Income taxes paid	361,500	319,095
Capital lease obligations incurred	---	1,738,642

The Company issued 400,000 shares of common stock valued at $2.9 million in connection with its acquisition of Snapps Drive-Thru, Inc. (Snapps) in January, 1991 of which 120,000 shares have been placed in escrow pending performance of certain obligations by the former Snapps stockholders. No liabilities were assumed in this acquisition.

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

3. **Accounts Receivable from Related Parties**

Rally's National Advertising Fund is a not-for-profit association organized for the purpose of promoting and providing advertising for the chain. The advertising co-op is a separate entity and is not included in the accompanying financial statements.

At April 5, 1992, the Company had advanced Rally's National Advertising Fund $400,000. Interest is being charged on the advance at prime plus 1/2%, which is Rally's borrowing rate. As of April 28, 1992, $100,000 plus interest had been repaid.

4. **Commitments and Contingencies**

(a) *Litigation*

On March 23, 1989, the Company filed suit against International Shortstop, Inc. ("Shortstop"), and several of Shortstop's franchisees in the Federal District Court for the Eastern District of Arkansas. The Company alleged that Shortstop's buildings infringed on the proprietary color and design of Rally's buildings. On November 30, 1990, the Court ruled in favor of Shortstop. The Company appealed this decision to the United States Court of Appeals for the Eighth Circuit which affirmed the trial court's decision on October 29, 1991.

On July 17, 1989, Shortstop and others filed suit against the Company claiming that the Company's management was aware of an alleged agreement by Alvin C. Copeland to purchase Shortstop and that the Company's suit against Shortstop was filed solely to interfere with that transaction. Shortstop is seeking damages in excess of $12,000,000, along with prejudgment interest and exemplary damages in amounts not less than $24,000,000. The Company had commenced the steps to bring its action against Shortstop before the date it is alleged to have become aware of such agreement between Shortstop and Copeland. On September 17, 1990, the District Court entered summary judgment in favor of Rally's, dismissing all claims against the Company. Shortstop filed an appeal to the United States Court of Appeals for the Fifth Circuit which on August 22, 1991, vacated the grant of Summary Judgment and remanded the case to the trial court for further consideration. Rally's filed a Petition for Certiorari to the United States Supreme Court and in January, 1992, the Supreme Court refused to hear the case. Rally's believes that the allegations of Shortstop are without merit and that the outcome of the litigation will not have a material adverse effect on the Company's operations or financial condition.

(b) *Snapps Acquisition*

The Company has agreed to pay to the former owners of Snapps Drive-Thru, Inc. $100,000 each for restaurants 59 through 75 to be developed by them. Further, the Company has agreed to give the former owners of Snapps Drive-Thru, Inc., an option to purchase 10,000 shares of the Company's common stock at $18 per share for each of restaurants 76 through 100 to be developed by them. Based on current expansion plans for this franchisee, the Company expects that payments made under this agreement will not exceed $500,000 in 1992.

5. **Subsequent Event**

On March 26, 1992, the Company signed a letter of intent to acquire Zipps Drive-Thru, Inc. for $12 million subject to certain adjustments. Zipps is headquartered in St. Louis, Missouri, and franchises double drive-thru quick service hamburger restaurants. There are a total of 46 Zipps restaurants operating in 5 states, of which 29 are company owned and 17 are franchised.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's revenues are derived primarily from Company-owned restaurant sales and royalty fees from franchisees. The Company also receives revenues from the award of exclusive rights to develop Rally's restaurants in certain geographic areas (area development fees) and the award of licenses to use the Rally's brand and confidential operating system (franchise fees). Certain expenses (restaurant cost of sales, restaurant operating expenses, depreciation and amortization, and advertising and promotion) relate directly to Company-owned restaurants, while general and administrative expenses relate to both Company-owned restaurants and franchise operations. The Company's revenues and expenses are affected by the number and timing of the opening of additional restaurants. Revenues from the Company's franchising activities are also affected by the level of franchised restaurant sales and franchise development activity and, in the first quarter of 1992, were affected by a special advertising and royalty reduction program which ended in the first quarter.

On July 28, 1990, the Company changed its fiscal year to the 52-53 week year ending on the Sunday nearest to December 31. Information has been restated for all periods presented to include the restaurants owned by Maxie'sof America, Inc., which were acquired on June 28, 1991 in a transaction accounted for as a pooling of interests. The following table sets forth the percentage relationship to total revenues, unless otherwise indicated, of certain items included in the Company's consolidated statements of income and operating data for the periods indicated:

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
Revenues		
Restaurant sales	94.9%	89.6%
Royalty fees	3.9	5.9
Area development fees	.9	3.8
Franchise fees	.3	.7
	100.0%	100.0%
Costs and expenses		
Restaurant cost of sales (1)	35.8%	39.8%
Restaurant operating expenses (1)	38.4	38.7
General and administrative expenses	10.4	11.5
Advertising and promotion expenses (1)	4.7	5.2
Depreciation and amortization (1)	4.5	5.3
Income from operations	10.3	8.7
Net interest expense (income)	.6	(.2)
Income before income taxes	9.7	8.8
Net income	6.1%	5.6%
Number of restaurants		
Restaurants open at the beginning of period	333	295
Company restaurants added, net during period	1	1
Franchised restaurants added, net during period	4	16
Total restaurants added, net during period	5	17
Total restaurants open at end of period	338	29

(1) As a percentage of restaurant sales.

Results of Operations

Three Months Ended April 5, 1992 Compared With Three Months Ended March 31, 1991.

The first quarter of 1992 included 14 weeks of operations as contrasted to 13 weeks in the prior year. The Company's complete 1992 fiscal year will cover 53 weeks as it does approximately every six years when the Company's normal 52-53 week fiscal year cycle ends. The additional week in the first quarter of 1992 contributed, in part, to variations between periods. Other explanations for changes between periods are discussed below. The Company estimates the impact of the additional week on revenues, net income and earnings per share in the current quarter was less than approximately $2.1 million, $128,000 and $.02 per share, respectively.

Systemwide sales grew 41.5% for the first quarter of 1992 to $66.2 million compared with $46.8 million a year ago. This increase was the result of additional restaurants being open in 1992 compared with 1991 and higher average restaurant sales in the first quarter of 1992 than in the same period a year ago. Systemwide average restaurant sales for the first quarter of 1992 were approximately 8.0% higher than in the prior year.

Total revenue increased 27.0% from $19.7 million for 1991 to $25.0 million for 1992. Company-owned restaurant sales grew 34.7% to $23.7 million in 1992 compared to $17.6 million in 1991. This increase was the result of more restaurants being open in the current period than a year ago, and by an increase of 1.0% in Company-owned average restaurant sales. Company-owned restaurant sales in certain major markets were adversely impacted in the first quarter of 1992 by unusually cold temperatures.

Royalty fees declined in the current quarter to $1.0 million compared with $1.2 million in the prior year. This decrease was attributable to the Company's advertising and royalty reduction program which concluded at the end of the quarter. Substantially all of the Company's franchisees participated in this one time only program which began in September 1991. Under the terms of the program, 50% of the royalties which would have been paid in the first quarter of 1992 were rebated to the participants to encourage increased use of television and radio advertising. The Company's royalty income was reduced by approximately $700,000 in the quarter as a result of this program, although the Company believes that improved sales of its franchisees participating in the program offset approximately half of the effect of the reduction in royalty income. Primarily as a result of this program, and the introduction of the Rallyburger Combo Meal in substantially all franchised restaurants, franchisee average restaurant sales increased by approximately 13.0% in the quarter.

In the first quarter of 1991, the Company began to emphasize penetration of existing markets through reliance on a greater number of franchisees per market in certain larger markets, each to develop a smaller number of restaurants. Consistent with this policy, the Company began to enforce more strictly its cancellation rights under area development agreements with franchisees who were not complying with area development schedules. The Company defers the recognition of area development fees which are paid in advance to the Company until either (i) restaurants are opened, in which case fees are recognized on a pro rata basis or (ii) the area development agreements are canceled, in which case the Company recognizes any remaining unearned area development fees relating to such areas. Area development fees recognized as income in the current period do not, and for the balance of the year are not expected to, reflect a significant level of area development cancellations.

Restaurant cost of sales declined as a percentage of sales to 35.8% for 1992 compared to 39.8% in 1991. This decrease reflects the impact of permanent changes in food and paper which reduced costs beginning in the third quarter of 1991 due to the Company's introduction of the Rallyburger, which replaced the Company's original 1/4 pound hamburger, and the elimination of certain of its paper products and Styrofoam. Unlike the original hamburger, the Rallyburger is a fully dressed, 1/5 pound hamburger served with leaf (not shredded) lettuce, ringed (not chopped) onions, a larger tomato and more condiments on a sesame seed bun. The Company began serving the Rallyburger in all Company-owned stores in July 1991. The improvement in cost of sales also reflects lower prices for beef in the current period than in the comparable period offset slightly by higher tomato prices in the current quarter.

General and administrative expenses as a percent of total revenues were lower at 10.4% versus 11.5% in the prior year. This change is attributable to revenues increasing faster in the current year than these generally fixed costs.

Advertising and promotion costs as a percent of sales were lower in the first quarter. However, the Company expects the level of advertising to increase over the balance of 1992.

Depreciation and amortization as a percent of restaurant sales were lower in the current period as increases in these expenses, due to more restaurants being open and the amortization of goodwill and other assets which originated in the first quarter of 1991, were offset in part by a change in estimate of the Company's restaurant buildings useful lives from 15 years to 20 years which became effective April 1, 1991. The change reduced depreciation expense approximately $55,000 for the first quarter of 1992 and was adopted to more accurately account for the useful lives of the Company's restaurants and to bring the Company's depreciation policies in line with those of other fast food chains.

Income from operations as a percentage of revenues increased from 8.7% in 1991 to 10.3% in the current quarter. This increase was attributable to higher restaurant-level margins offset in part by the reduction in franchised restaurant related revenues. Restaurant margins grew at Company-owned restaurants from 10.9% in 1991 to 16.5% in 1992 primarily as a result of improved cost of sales, as discussed above. Franchise related revenues were lower due primarily to the advertising and royalty reduction program.

The Company's effective income tax rate for the current quarter was 36.7%, which is the income tax rate the Company anticipates for the balance of 1992.

Liquidity and Capital Resources

Capital expenditures of approximately $2.5 million for the quarter ended April 5, 1992 were funded through operations and existing cash balances. Capital expenditures of approximately $8.6 million for the fiscal year ended December 29, 1991 were funded through operations, existing cash balances and advances under a line of credit. The Company signed a letter of intent on March 26, 1992 to acquire Zipps by June 1, 1992. At May 3, 1992, 29 of the 46 Zipps restaurants were owned and operated by Zipps and the remaining 17 were franchised. The Company will finance this transaction, if necessary, initially by a bridge loan currently being arranged with a commercial bank and will repay the bridge loan with a portion of the proceeds of the Company's secondary offering.

As of April 5, 1992, and for the past several years, the Company has had working capital deficiencies resulting primarily from the pace of its expansion program. The Company does not have significant receivables or inventory and receives trade credit based upon negotiated terms in purchasing food and supplies. Because funds available from cash sales are not needed immediately to pay for food and supplies or to finance receivables or inventory, they may be used for noncurrent capital expenditures. In addition, the Zipps acquisition will temporarily increase the Company's working capital deficiency.

During 1992, including the opening of approximately 35 Company-owned restaurants, but excluding the Zipps acquisition, the Company expects to expend approximately $19.8 million on various capital projects, including implementation of its in-restaurant computer operating system, deployment of its proprietary restaurant video ordering system and exterior enhancements to its buildings to further promote site presence. The Company believes it can fund its operations, anticipated expansion (exclusive of the Zipps acquisition) and these planned capital projects through its existing cash balances, lines of credit and cash flow from operations for at least the next 12 months.

Credit Facilities

The Company has a $9 million credit facility with a bank consisting of a $4 million, unsecured line of credit and a $5 million, unsecured three year term note. The $4 million line of credit bears interest at prime and there were no amounts outstanding under this line at December 29, 1991. The $5 million term note bears interest at prime plus 1/2% and the outstanding balance due under this line of credit was $4,200,000 as of April 5, 1992.

Rally's Finance, Inc., a wholly owned subsidiary, has entered into a credit facility for up to $5,000,000, the proceeds of which will be loaned to Rally's franchisees for equipment and modular building loans. At April 5, 1992, approximately $725,000 was outstanding under this credit facility and loaned to the Company's franchisees.

Acquisitions

On June 28, 1991 the Company acquired all of the issued and outstanding shares of common stock of Maxie's in exchange for 280,000 shares of the Company's common stock. The cost of converting the Maxie's company-owned and franchised restaurants was approximately $600,000.

On January 16, 1991, the Company closed an Agreement and Plan of Reorganization with Snapps Drive-Thru, Inc. whereby 40 of the Snapps chain of 43 double drive-thru restaurants were converted to Rally's franchised restaurants and three were closed. As a Rally's franchisee, Snapps will develop an additional 60 Rally's restaurants over a 42-month period. As a result of this transaction, the Company is receiving royalties from the sales of the former Snapps restaurants.

Under the terms of the Agreement, the Company exchanged 400,000 shares of its common stock for all of the Common Stock of Snapps. 120,000 shares of the Company's common stock has been pledged in escrow pending the fulfillment of various performance conditions by the principal franchisees of Snapps. The Company also agreed to a cash payment to Snapps of up to $2.9 million including a conversion allowance and an option for Snapps to acquire up to 250,000 shares of Rally's common stock at $18 per share if Snapps opens up to sixty new Rally's restaurants over the next three and one-half years. A substantial portion of the Company's cash costs of this transaction are being provided through the royalty fees the Company receives as the Snapps restaurants are converted to Rally's.

Royalties Receivable

The Company's royalties receivable at December 29, 1991 had increased since December 30, 1990 by approximately $837,000 while its allowance for doubtful accounts had increased over the same period by approximately $300,000. These increases were primarily due to increases in the number of its franchised restaurants since December 30, 1990 and to receivables accruing from the Company's franchisees in Phoenix and Virginia Beach both of which sought protection under Chapter 11 bankruptcy laws in 1991. The Arizona franchisee presently operates 14 restaurants and the Virginia Beach franchisee operates eight restaurants.

On January 14, 1992, the Bankruptcy Trustee for the Virginia Beach franchisee approved an order providing for the full payment beginning July 1, 1992 of all pre-petition royalties due to the Company and accepting the Rally's franchise agreements. As a result, the past due balance has been reclassified as other assets in the April 5, 1992 balance sheet. The Virginia Beach franchisee has been paying its current royalties in a timely manner since it entered bankruptcy.

Also in January, 1992, the Arizona franchisee submitted a plan of reorganization to the Arizona Bankruptcy Trustee which would, if accepted as filed, result in the Arizona franchisee accepting the Rally's franchise agreements, settling its past due royalties through contributing equipment packages to Rally's and continuing to operate as Rally's restaurants. The Arizona franchisee has not made any royalty payments since it entered Chapter 11 and the Company's allowance for doubtful accounts on April 5, 1992 is substantially related to this franchisee's past due balances.

EXHIBIT 11

RALLY'S, INC. AND SUBSIDIARIES
CALCULATIONS OF EARNINGS PER SHARE
(Unaudited)

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
Net Income	$1,536,560	$1,110,099
Average shares of common stock and equivalents outstanding (1):		
Average common shares outstanding	7,410,193	7,333,320
Common stock equivalents -- dilutive options	467,983	22,598
Average shares of common stock and equivalents outstanding	7,878,176	7,355,918
Earnings per share	$.20	$.15

(1) Excludes 120,000 shares held in escrow pending the performance of certain obligations by stockholders.

PART II **OTHER INFORMATION**

ITEM 1. **Legal Proceedings**

On March 23, 1989, the Company filed suit against International Shortstop, Inc. ("Shortstop"), and several of Shortstop's franchisees in the Federal District Court for the Eastern District of Arkansas. The Company alleged that Shortstop's buildings infringed on the proprietary color and design of Rally's buildings. On November 30, 1990, the Court ruled in favor of Shortstop. The Company appealed this decision to the United States Court of Appeals for the Eighth Circuit which affirmed the trial court's decision on October 29, 1991.

On July 17, 1989, Shortstop and others filed suit against the Company claiming that the Company's management was aware of an alleged agreement by Alvin C. Copeland to purchase Shortstop and that the Company's suit against Shortstop was filed solely to interfere with that transaction. Shortstop is seeking damages in excess of $12,000,000, along with prejudgment interest and exemplary damages in amounts not less than $24,000,000. The Company had commenced the steps to bring its action against Shortstop before the date it is alleged to have become aware of such agreement between Shortstop and Copeland. On September 17, 1990, the District Court entered summary judgment in favor of Rally's, dismissing all claims against the Company. Shortstop filed an appeal to the United States Court of Appeals for the Fifth Circuit which on August 22, 1991, vacated the grant of Summary Judgment and remanded the case to the trial court for further consideration. Rally's filed a Petition for Certiorari to the United States Supreme Court and in January, 1992, the Supreme Court refused to hear the case. Rally's believes that the allegations of Shortstop are without merit and that the outcome of the litigation will not have a material adverse effect on the Company's operations or financial condition.

ITEM 6. **Exhibits and Reports on Form 8-K.**

(b) *Reports on Form 8-K.*

There were no reports on Form 8-K filed during the quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RALLY'S, INC.

Date: May 18, 1992

By: Wayne M. Albritton
Wayne M. Albritton
President and Chief Operating Officer

Date: May 18, 1992

By: Donald C. Moore
Donald C. Moore
Sr. Vice President of Finance and
Chief Financial Officer
(Principal Financial Officer)